MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

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# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**T2, 2017/2018**

## BSM7054 - STRATEGIC MANAGEMENT

(MBA Full Time)

1 FEBRUARY 2018
9.00 a.m – 12.00 p.m
(3 Hours)

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**INSTRUCTIONS TO STUDENT**

1. This question paper consists of **EIGHT (8) pages** (inclusive of cover page) only.

2. **Answer ALL FIVE (5) questions.** All questions carry equal marks and the distribution of the marks for each question is given.

3. Please provide all your answers in the **Answer Booklet** provided.

**SECTION A:** Read the following case. Answer **ALL** questions in Question 1.

**An era ends for Starbucks and Howard Schultz**[1]

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*Howard Schultz, as visible a symbol of the coffee giant as the green-and-white mermaid, is stepping away from the CEO post after shaping Starbucks into a global consumer giant. He'll still play a part in the company's future — but for how long?*

**By Janet I. Tu**
**Seattle Times business reporter**

On April 2, 63-year-old CEO Howard Schultz is stepping down from his second stint at the helm of the company he built into a global empire. The first time he left, an over-expanding Starbucks crashed into a sharp recession, and he returned to put the company back on the rails.

This time, he leaves the CEO position as questions again loom about Starbucks' growth prospects - and about his own future as an advocate for social causes and, perhaps, a political candidate.

He's turning over to his successor a company on stable footing, with a digital strategy that has made Starbucks a leader among brick-and-mortar retailers.

And he's leaving a legacy of a company that strives to take care of its employees while taking on a range of social issues from race relations to the hiring of veterans and refugees.

Schultz "*made a powerful brand, a powerful company, with a set of values*," said Nancy Koehn, a professor and historian at Harvard Business School. "*Particularly in this second round, he's continued to evolve the company as the world marketplace, the global residents, have changed.*"

"*He's an important pathbreaker in establishing a bigger social and political footprint for a public company*," Koehn said.

After stepping down as CEO, Schultz will remain at Starbucks as executive chairman, focusing on building the company's more premium businesses, including its high-end showpiece Roasteries, and a new line of higher-end Reserve coffee shops.

He'll be succeeded as CEO by Kevin Johnson, Starbucks' president and chief operating officer, who has led much of the day-to-day operations since last July, when the company said Schultz would be concentrating his efforts on long-term global strategy and innovation.

***He made coffee a luxury***

Schultz, who declined to be interviewed ahead of the company's annual shareholders meeting on Wednesday, joined Starbucks in 1982, when the coffee chain was tiny and focused mainly on selling coffee beans. After he and a group of investors bought Starbucks for $3.8 million in 1987, it began a rapid expansion that took it from 17 stores that year to 165 by 1992, the year it went public.

[1] Sourced from: https://www.seattletimes.com/business/starbucks/an-era-ends-for-starbucks-and-howard-schultz/

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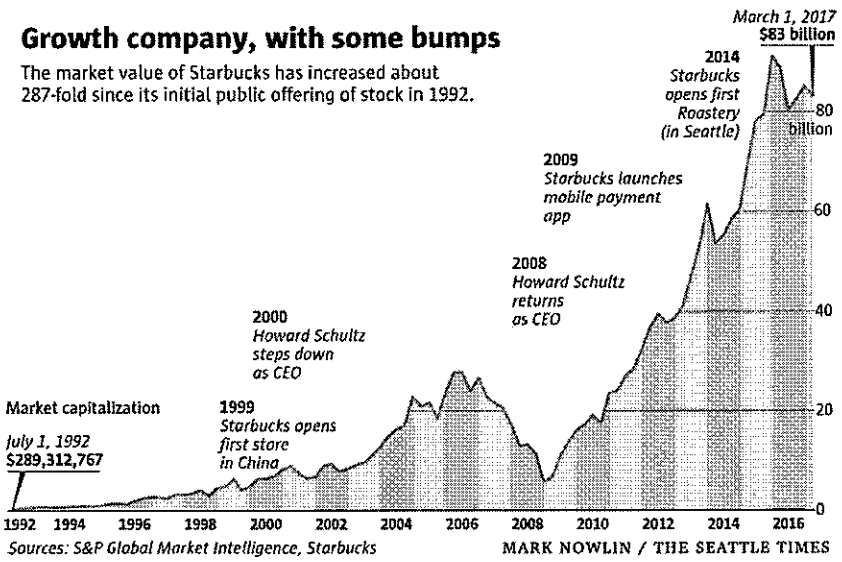



At the time, coffee consumption was declining in favor of soft drinks, and those Americans who did drink coffee purchased brands such as Folgers to make at home, said Patti Williams, who teaches marketing at the Wharton School at the University of Pennsylvania.

"*Not only did he [Schultz] have a vision that coffee could be a growing category but also a vision that coffee shops would be appealing to a large portion of the culture,*" Williams said. "*One of the things he did right was he made coffee a luxury in a way it hadn't been previously: something to be savored and appreciated.*"

By the time Schultz stepped away as CEO of the company the first time in 2000, there were some 3,500 Starbucks stores worldwide.

But Starbucks hit choppy waters, with traffic at its stores falling as it pursued too-rapid growth, even as the U.S. was heading into a recession.

"*It had become ubiquitous. It was everywhere so it had somewhat commoditized itself,*" Williams said.

Schultz, who had remained chairman of the board, stepped back in as CEO in 2008.

He closed a number of stores and slowed store expansion in the U.S., while expanding in overseas markets with more growth potential. He leveraged lots of publicity out of closing all the Starbucks stores in the U.S. for about three hours to retrain all its baristas in the core values of making great coffee.

"*That got people's attention. It was saying to customers: 'Come back to our store. We forgot what customers need and now we're focusing attention on it,*'" said Suresh Kotha, professor of management at the University of Washington's Foster School of Management.

But profits still plunged, due to restructuring costs and as recession-battered Americans cut back on their Starbucks runs.

Indeed, as Koehn, the Harvard Business School professor, remembers it: "*In 2008, the numbers just looked awful. They sang the death knell of Starbucks in many business classes.*"

**Continued ...**

Schultz ultimately shuttered some 900 stores, cut tens of thousands of jobs, and drastically slashed expenses. Eventually, the measures started working, as the company's sales and profits, as well its share price, trended up again.

Schultz is "*one of the few globally recognized CEOs who turned around a multibillion-dollar enterprise when growth stalled*," Kotha said. "*The probability of a company coming back after it stalls like that is very low.*"

Schultz also encouraged a culture of experimentation, launching the likes of Via instant coffee.

Not every venture succeeded. There was the spate of purchases in 2011 and 2012: the La Boulange bakery chain, Teavana tea shops and Evolution Fresh juice company. Starbucks has since shuttered La Boulange's retail locations, essentially pulled the plug on the Teavana tea bars, and is closing the last of the four Evolution Fresh stores. There was the "*Evenings*" program, killed this year, in which stores served wine, beer and small plates in an effort to get more people into the coffee shops at night.

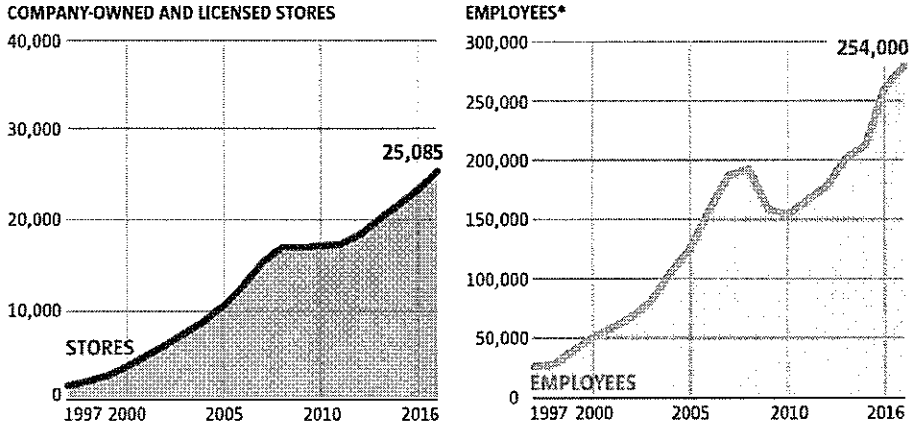
But some of those ventures still provided lessons and value for the company. For instance, La Boulange recipes are used for food at Starbucks' core stores, and alcohol will be served at the higher-end line of coffee shops Starbucks plans to open.

Perhaps the most important experiment was Starbucks' move into the digital realm, where it's now seen as a leader among brick-and-mortar retailers. The company now has a prominent social media presence. And its mobile app, which allows advance ordering and ties into its rewards program, accounts for a growing percentage of Starbucks transactions.

"*Starbucks had no digital strategy to speak of all the way until 2007*," said Koehn, of Harvard Business School. "*Schultz and some knowledgeable others brought the company wrenching and screaming into the digital age.*"

**Starbucks' expansion over the decades**

In 1987, the year Howard Schultz and a group of investors bought Starbucks, there were 17 stores. As of March 2017, the company has about 26,000 stores.




*Does not include those working at licensed stores.
Sources: S&P Global Market Intelligence, Starbucks

EMILY M. ENG / THE SEATTLE TIMES

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***Politics, social issues***

As much as Schultz is associated with coffee, he may be just as well known for his outspoken stances on social and political issues - and getting the company involved in them.

Starbucks has in recent years pledged to hire 10,000 U.S. military veterans and active duty spouses, and 10,000 young Americans who aren't employed or in school. It has supported same-sex marriage, and helped raise money to battle homelessness.

Some initiatives, such as the one that encouraged baristas to hold conversations on racism with customers, have fizzled into awkwardness or sparked anger. Schultz's recent pledge to hire 10,000 refugees worldwide over the next five years drew some calls for a boycott.

It has also been drawn into the gun debate, with Schultz running ads asking people not to openly carry firearms into its stores in response to open-carry supporters holding "*Starbucks Appreciation Days*" in which they would show up in stores with their guns.

It's debatable whether the company's political stances end up helping or hurting sales. But Koehn sees consumers increasingly looking for companies that reflect their politics and values.

"*We're already seeing some of that in reaction to the Trump family's products*," she said. "*Schultz is the beginning of a new template, I believe, for public companies.*"

Schultz was also a pioneer among retail chain CEOs in offering health-care benefits and tuition assistance for part-time employees, said Kotha of the Foster School. Starbucks began offering health benefits to part-time, as well as full-time, employees in 1988. Three years ago, it unveiled a plan in which Starbucks employees participating in Arizona State University's online program would get their tuition fully reimbursed.

The idea for the program came from ASU, which chose Schultz for his commitment to "*new ways of doing things, new solutions*," said ASU President Michael Crow.

"*We're trying to show that if one corporation and one university can achieve 25,000 college graduates [the goal by 2025], then what could others do*," Crow said.

About 6,800 Starbucks employees are currently enrolled in the program, with 1,000 graduates expected this year, according to the company. Board member and former Defense Secretary Robert Gates said it was the way Starbucks treats its employees that initially attracted him: "*It showed me that a company can do right by its employees and still be a very successful business.*"

Gates, in turn, talked to Schultz about the difficulties veterans face in returning from war and re-entering civilian life. The company said last month that it has hired 8,800 vets and military spouses so far.

The company sometimes falls short of its aspirations. For example, employees have told stories of hardship brought on by erratic scheduling practices and accused the company of drastically cutting work hours to the point where workers were having a hard time piecing together enough hours to make ends meet.

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(The company has said that it's changed its scheduling practices and that there was no top-down directive to cut work hours. Some cities, including Seattle, also passed scheduling laws aimed at addressing such issues.)
But overall, Gates said, Schultz has created "*an enormously successful company with a great conscience and commitment to the communities in which it operates. And I think that's a pretty amazing legacy for a corporate leader.*"

***Growth in premium brands***
Today, Starbucks has about 26,000 stores in 75 countries. Last fiscal year, it logged $21.3 billion in revenue and a record $2.8 billion in profit. It plans to add 12,000 stores worldwide over the next five years.
There are signs of challenges to come, though. Koehn of Harvard Business School wonders: "*Are they growing too fast? ... It makes me anxious as a Starbucks watcher.*" And sales growth at stores open at least a year has slowed in the past few quarters.
Furthermore, a contingent of "*third wave*" coffee shops, such as Stumptown in Portland and Intelligentsia in Chicago, is also nipping at Starbucks from the high end, garnering much of the buzz among coffee connoisseurs. Such shops have created innovative drinks such as nitro cold brew and barrel-aged coffees - drinks that Starbucks has since adopted at some of its locations.
"*Unfortunately for them [Starbucks], they redefined the top of the pyramid and others vaulted over them,*" said Williams, the Wharton School professor.
Reclaiming that high end - seen as the next great growth opportunity - is why Starbucks is focusing so much effort on expanding its premium coffee business, the arena Schultz will be overseeing once he steps down as CEO.
That business includes its Reserve line of small-lot premium coffee beans; the expansive Roasteries where the company roasts the Reserve beans and brews coffee using a variety of methods; and a line of yet-to-be-launched Reserve stores that will serve Reserve coffees.
The company plans to open 20 to 30 Roasteries and 1,000 Reserve stores over time, and also put in Reserve bars that serve the premium coffees in a fifth of its traditional stores.
The market opportunity seems to be there. "*Premium, high quality coffee is a fast-growing trend, and one that will not likely diminish anytime soon,*" according to a report from market research firm Mintel that also says younger generations in particular are gravitating toward premium products.
Schultz is a good fit to lead Starbucks' expansion into the premium space, said Neil Saunders, managing director of GlobalData Retail.
"*This is a new venture that needs a lot of credibility, a lot of experience behind it,*" Saunders said. And Schultz "*is a business builder. He likes and gets a thrill at seeing something go from a small concept to a bigger business.*"
But will he stick around long enough to see that happen?
Schultz has sought to reassure investors, saying that he plans to stay "deeply engaged" with the company even after he steps down as CEO.
But his name has been brought up, time and time again, as someone who might run for political office.
The New York Times recently quoted former presidential adviser David Gergen as saying "*Howard Schultz is definitely being pursued*" to run for the Democratic presidential nomination in 2020.

**Continued ...**

> Starbucks would only say on the matter: "*Howard is focused on Starbucks and our aspirations for the company, doing all he can from his position to create social impact and contribute to the greater good as a public company.*"

**QUESTION 1 (60 MARKS)**

**In addition to your prior research on Starbucks, use the above article to answer the following questions.**

**(a) Demonstrate a detailed analysis of the gourmet coffee industry's effect on Starbucks in its effort for strategic competitiveness. Use Porter's model to validate your answer. (30 marks)**

**(b) List TEN (10) critical success factors that you would identify to be important for a business like Starbucks to possess to succeed in its industry. (10 marks)**

**(c) Justify the strategies, both business- and corporate level, that Starbucks is executing to develop a competitive advantage. (20 marks)**

**SECTION B:** Answer **BOTH** questions.

**QUESTION 2 (20 MARKS)**

> A Swedish high-tech firm [...] joined with a larger Eastern European company to build and operate a factory in the majority partner's home country. The proposed arrangement was that the minority (Swedish) owner would contribute its expertise on selling the finished product, whereas the majority (Eastern European) partner would provide the raw materials to make it. Over time, conflicts began to emerge. The majority owner thought sales should have been more robust, and the minority partner [did not] appreciate that its collaborator shifted responsibility for manufacturing to its parent company. Long, protracted disputes resulted, sucking up valuable money, time, and other resources in fruitless attempts to end the conflicts. Eventually the IJV [i.e. international joint venture] folded.[2]

**(a) Elaborate on international joint ventures (IJVs). (8 marks)**

**(b) Expanding on the above example, seek any FOUR (4) reasons on why the smaller Swedish firm was not able to succeed in its IJV with its larger Eastern European partner. (12 marks)**

[2] http://www.strategy-business.com/blog/Joint-Venture-Roadmap-for-the-Littler-Guy

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## QUESTION 3 (20 MARKS)

**(a)** *The board of directors, as a form of corporate governance mechanism, fosters ethical strategic decisions and this is significant to top-level executives.*

**Validate this statement.** **(10 marks)**

**(b) Argue <u>FOR</u> the importance of entrepreneurship and entrepreneurial opportunities for organisations competing in the current competitive landscape. (10 marks)**

**End of Paper**